**PROFESSIONAL PRACTICE AND CODES OF ETHICS**

**The nature of a profession**

The word ‘professional’ is associated with a highly-qualified group of individuals who carry out a particular type of highly-skilled work. Examples of professions are doctors and surgeons, dentists, lawyers, actuaries and accountants. Each professional group is organised and regulated by a professional body. (In the UK for example, the professional bodies often have a royal charter. The accountancy profession has several different professional bodies.)

The professional body has the power to:

1. admit new members to the profession;
2. award qualifications to individuals who achieve a required standard of skill or competence; and
3. expel members from the profession, for unprofessional conduct.

It is often a legal requirement that certain aspects of the work of professionals must be performed by professionally-qualified people.

**Professionals and their Clients**

The relationship between professionals and their clients is based on several perceptions of the nature of a professional person.

* There is a **relationship of trust**: The client can trust the professional to act in a proper way, in accordance with a professional code of conduct. In return, the professional expects the client to place its trust in him (and her). For example, a client should not withhold relevant information from a professional that would affect his decisions or judgements.
* There is an assurance that the professional has attained a minimum level of **expertise and competence**. This assurance is provided, in accountancy, by the requirements to (1) pass formal examinations in order to obtain a qualification, (2) have relevant work experience and (3) continue with professional development and training throughout the accountant’s professional career.
* **The professional puts the client before himself**: There is also an implication in the professional-client relationship that the professional has more concern for the client than for his own self-interest.

**Acting Professionally**

Professionals are expected to act in a professional way. Professional behaviour means complying with relevant laws and obligations, including compliance with the code of conduct (including the code of ethics) of the relevant professional body. Professional behaviour is commonly associated with:

1. acting with integrity, and being honest and straight-dealing;
2. providing objective opinions and advice, free from bias, influence or conflicts of interest;
3. using specialist knowledge and skill at an appropriate level for the work;
4. confidentiality: respecting the confidentiality of information provided by clients;
5. avoiding any action that brings the reputation of the profession into disrepute;
6. compliance with all relevant laws and regulations.

The ICAN Code of Conduct states that ‘the principle of professional behaviour imposes an obligation on Chartered Accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession.

**Example:** Anton Rivers is the senior partner in a firm of accountants that specialises in preparing financial statements for clients, tax work and auditing. Mr Rivers has decided to advertise the services of his firm in the local newspaper. The advertisement states that Rivers and Co is a highly experienced firm with numerous clients, including foreign and domestic companies. It adds that the services of the firm are of the highest standard, unrivalled by any other local firm of accountants. His colleague challenges him by commenting that Rivers and Co does not have any foreign companies as a client. Mr Rivers replies that it is only an advertisement, and no one ever believes the marketing claims in advertisements. Has Anton Rivers acted in a professional way? If not, why not?

**Answer:** Anton Rivers has breached the code of conduct of his profession, in the following ways:

1. failing to act honestly (and with integrity), and
2. by implication, criticising the work of other professionals.

The advertisement contains an untrue statement, that the firm has foreign companies as clients. This is dishonest. The advertisement also states that the standards of service from the firm are better than those of any other firm in the area. This is a criticism of other accountancy professionals, and is not permitted by the professional codes of ethics.

**Acting in the Public Interest**

An aspect of professional bodies, which separates a profession from a trade, is that members of the profession are expected to act in the public interest. It is therefore a responsibility of the accountancy profession **‘not to act exclusively to satisfy the needs of a particular client or employer’**. When the demands or needs of a client or employer appear to be contrary to the public interest, accountants should consider the public interest.

So what is the public interest? Professional codes of ethics do not provide a clear definition, but it is usual to associate the public interest with matters such as:

* detecting and reporting any serious misdemeanour or crime;
* protecting health and public safety;
* preventing the public from being misled by a statement or action by an individual or an organisation;
* exposing the misuse of public funds and corruption in government; and
* revealing the existence of any conflict of interests of those individuals who are in a position of power or influence.

**CODES OF ETHICS FOR ACCOUNTANTS**

**The Need for a Professional Code of Ethics for Accountants**

Every professional accountancy body has issued a code of conduct and code of ethics for its members and student members. Even when an individual works for a company or a firm of accountants that has its own code of ethics, there is a need for a professional code of conduct. This is because accountants have a professional duty to act in the public interest, and this aspect of professional behaviour is not covered by corporate ethical codes.

**The IESBA (IFAC) Code of Ethics for Professional Accountants**

Although each professional accountancy body has its own code of ethics, all codes are similar, because they are based on the International Ethics Standards Board for Accountants (IFAC) Code. The IESBA Code is issued by the Ethics Committee of the International Federation of Accountants, whose members include the professional accountancy bodies of most countries.

The IESBA Code sets out the ethical requirements for professional accountants and states that any member body of IFAC (such as ICAN) or any individual firm of accountants may not apply ethical standards that are less strict than those in the IESBA Code. The IESBA Code therefore establishes a minimum world-wide code of ethical conduct for accountants.

The IESBA Code is divided into three parts:

1. general principles and application of the code;
2. guidelines for accountants in public practice;
3. guidelines for accountants in business.

The same general ethical principles apply to all accountants. The circumstances in which ethical problems arise are different between accountants in practice and accountants in business. Accountants in practice have to deal in an ethical way with issues arising from the client relationship. Accountants in business have to deal with ethical issues where they are employees of the organisation in which the ethical problem has occurred.

**Fundamental principles**

Professional accountants are required to comply with the following fundamental principles:

1. **Integrity**: An accountant must be honest and straightforward in his professional and business dealings. This includes a requirement for ‘fair dealing’ and a requirement to be truthful.

A very important aspect of integrity is that an accountant should not be associated with reports or any other provision of information where he or she believes that:

* the information contains a materially false or misleading statement
* the information contains a statement that has been prepared and provided recklessly, without proper care or consideration for its accuracy
* there are omissions or the information is presented in a way that makes the relevant information difficult to see, with the effect that the information could be seriously misleading.
1. **Objectivity**: An accountant must not allow his professional or business judgement to be affected by:
* bias (personal prejudice)
* conflicts of interest
* undue influence from others: for accountants in business, this includes undue pressure from the employer (senior management).

For accountants in public practice, ‘objectivity’ is often associated with independence of mind and judgement. For accountants in business, however, the concept of independence is not relevant in the same way as it is for independent auditors. This is because accountants in business are simply not independent due to the fact they are employees and frequently shareholders or recipients of other benefits such as healthcare and pension contributions. All this mean that employed accountants in business have significant self-interest in their employment and are therefore not independent.

1. **Professional** **competence and due care:** An accountant has a duty to maintain his professional knowledge and skills at a level that enables him to provide a competent professional service to his clients or employer. This includes a requirement to keep up to date with developments in areas of accounting that are relevant to the work that he does. Accountants should also act diligently in accordance with relevant technical and professional standards when doing their work for clients or employer.

Professional accountants have a duty to carry out with care and skill the instructions of an employer or client, insofar as these are compatible with the ethical requirements for integrity, objectivity and (in the case of accountants in public practice) independence

1. **Confidentiality:** Accountants must respect the confidentiality of information obtained in the course of their work. This applies to the confidentiality of information within the firm or employer’s organisation, as well as to confidentiality of information about clients (for accountants in professional practice). The requirement to keep information confidential applies:
* in a social environment as well as at work: for example, an accountant must be careful of what he says to a good friend who also happens to be a and business associate, or to a wife or husband who is also a professional accountant
* after the accountant has moved to another job – confidentiality applies to information obtained when working for a former employer

In addition, confidential information must never be used to obtain a personal benefit or a benefit for a third party. There are some circumstances when the disclosure of confidential information is permitted or even required by law.

* Confidential information about a client (or employee) can be disclosed if the client (or employee) has given permission. Before disclosing the information, however, the accountant should consider whether the disclosure might harm a third party.
* Confidential information must be disclosed to the authorities in certain circumstances. These circumstances depend on the laws of the country. In the UK, for example, tax inspectors or the police might obtain a court order (warrant) to take away files relating to a client.
* The law might also require the disclosure of confidential information to the appropriate authorities. For example, firms of accountants are expected to disclose suspicions of money laundering by a client to the appropriate authorities. (The details of anti-money laundering laws may very between countries). In addition, tax evasion is a crime and accountants are required to report tax evasion by clients to the authorities. However, accountants are not expected to disclose client information to the authorities where the work for the client is covered by legal professional privilege.
* Disclosure is also permitted when the accountant has a professional right or duty, and disclosure is not prohibited by law
1. **Professional behaviour:** Accountants are required to observe relevant laws and regulations, and to avoid any actions that would discredit the accountancy profession. For example in professional practice, practitioners must be truthful when advertising and must not disparage the services provided by ‘rival’ firms. In both professional practice and business, accountants must obey the law. If an accountant was convicted of a serious crime such as murder or money laundering they would probably be expelled from membership of their accountancy institute for unprofessional behaviour.